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HOW THE NATIONAL INCOME IS DIVIDED

BY

ALBERT G. HART

PUBLIC POLICY PAMPHLET NO. 23
HARRY D. GIDEONSE, EDITOR

THE UNIVERSITY OF CHICAGO PRESS

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INTRODUCTION BY THE EDITOR

Economics as the study of *who gets what and how* is at once the most difficult and the simplest of social disciplines. While some of its problems lend themselves with the utmost difficulty to fruitful analysis, others tend to disappear in the mere statement of the facts, and this is particularly true of a number of public "issues" concerning the national income.

This pamphlet is essentially a reasoned account of the relevant facts concerning a number of such important questions listed in the author's opening paragraph. Incidentally, it affords an occasion for some critical analysis of statistical data that has recently become available and has played a rather significant role in public controversy.

This is the twenty-third of a series of Public Policy Pamphlets which the University of Chicago Press is publishing. Frequently the scholarly journals give no attention at all to problems that have an acute public interest, while the ordinary magazines can print little but superficial comment. The University might well perform a valuable service by making available to the public whatever special training and information it may have at its disposal. The continuation of such a series will, of course, depend upon its reception by the public.

Perhaps it goes without saying that the authors of these pamphlets are individually responsible for their views and that they in no way involve the responsibility of the University of Chicago.

HARRY D. GIDEONSE

June 4, 1937

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HOW THE NATIONAL INCOME IS DIVIDED

I. INTRODUCTION

How much of the national income of the United States comes into the hands of working people and how much into the hands of property owners? Are the profits of manufacturing and mining companies so large that they could pay much higher wages without either paying less for their materials or charging more for their products? Are the farmers paying a large share of their incomes as interest to mortgage-holders? Do the profits of corporations flow to the rich or to people of moderate incomes? Have the rich been growing richer and the poor been growing poorer?

All these are simply questions of fact. But they bear directly on important questions of national policy; for the distribution of the national income has recently come to be a major issue in politics. Through "agricultural adjustment acts" and "soil conservation acts," attempts are being made to raise the incomes of farmers. The federal income tax has been so adjusted as to take the major part of the "net income" of the very rich; and heavier taxes on moderate incomes are being seriously discussed. "Share our wealth" has been made the political war-cry of a not unimportant group. A number of minimum-wage laws have recently been enacted, intended to raise the economic status of the poorest of the workers in our cities; and further measures of this sort have been proposed. A campaign is on foot to increase the incomes of many groups of factory and mine workers by labor organization, working through strikes and the threat of strikes. Most Americans wish to see these issues fairly settled. But without a clear picture of the facts of income distribution it is hard to form a fair judgment; for friends or opponents of reform measures can readily dramatize certain facts, while leaving others discreetly in the background, and thus trick us into joining their side overhastily.

Much of the necessary information has become available in the last few years, thanks to statistical studies of the size

and distribution of the national income carried out by the National Bureau of Economic Research, the United States Department of Commerce, the Brookings Institution, and various other organizations and individuals. Although many important details have not been conclusively settled—there is serious disagreement among the experts, to give examples, about income from farming and from city real estate—all the recent estimates fit together into a reasonably consistent general picture. This pamphlet is written to summarize and interpret the statistical results of these studies, in the interests of general understanding.

II. MEASURES OF NATIONAL INCOME

Since this pamphlet is chiefly an account of statistics about "national income," we must begin by asking what statisticians mean by the term, and what items their calculations include. Of the dozen or so different notions of national income recently used, however, we need concern ourselves only with the three which underlie the principal series of figures quoted below.

The first of these, "national realized income," is the basic concept of Dr. W. I. King's study for the National Bureau, *National Income and Its Purchasing Power* (New York, 1930). This study covers the years 1909–28 (brought down to 1929, with some revision for 1925–28, by figures published in 1934 by the Brookings Institution, in *America's Capacity to Consume*, p. 152), and is our chief source of comparisons between pre-war and post-war years. "Realized income," in Dr. King's words (*National Income*, p. 42), "consists, in the main, of the amounts received by individuals in the form of wages, salaries, pensions, compensation for injuries, interest, dividends, rents, royalties, services of durable consumers' goods, and profits withdrawn from business." The "amounts" dealt with are chiefly sums of money, passing to individuals in payments of types normally regarded as income for the recipients. But they also include some items in kind. Part of the "wages" and "profits withdrawn" in agriculture consist of food consumed on the farm; and the "services of durable consumers' goods" represent the rental value of houses, automobiles, furniture, etc., used by the owners.

The second of our three chief income concepts, "national income produced," and the third, "national income paid out," are used by both the United States Department of Commerce and the National Bureau in their studies published since 1930, and thus underlie the most recent and authoritative income estimates available. Comprehensive estimates on both bases, classified by industries and types of income, have been published for 1929–34 (with partial figures for 1935) in the government document, *National Income in the United States, 1929–35* (Washington, 1936). Dr. Simon Kuznets, of the National Bureau, who launched the Commerce Department study in 1934, is engaged in re-working the materials available for the years 1919–28 into comparable estimates, and has published preliminary figures for some industries in the bulletin *Income Originating in Nine Basic Industries, 1919–1934.*

"National income produced" is intended to measure the value of all goods and services produced in our economic system, minus the value of the goods and services used up in the process of production. As measured statistically, it consists of wages, salaries, other compensation paid to employees, interest, rents and royalties, and the profit from operations (not including "capital gains" of business from revaluation of property) of all incorporated and unincorporated firms.

"National income paid out" is intended to measure the total paid to individuals for their services and the services of their property used in production (taking production in its broadest sense). It is made up of the same elements as "realized income," with the exception that services of durable consumers' goods are omitted. (Both "income produced" and "income paid out" include the money value of goods consumed on the farm by farmers and farm hands, however.) As measured statistically, it differs from "income produced" merely in its treatment of business profits, which are represented in "income paid out" only by dividends actually paid by corporations and profits actually withdrawn for personal use by owners of unincorporated businesses. This difference (which is sometimes positive—"income produced" being larger than "income paid out"—and sometimes negative) is called "net business savings."

None of these three concepts, which deal with what is commonly called "money income," is an altogether satisfactory measure of the size and distribution of the flow of services of persons and property which constitutes national income in the more fundamental sense. For one thing, many of these services (for instance, the work done by housewives, and in the latest estimates the use of owner-occupied houses) are omitted from the estimates for lack of money measures. But even more serious, income comparisons over time and over space involve adjustments for changes in prices; and these adjustments can never be more than rough-and-ready.

In addition, even though the national-income estimates omit some of the things which are hardest to measure, they are not entirely accurate within their limitations. This is due partly to the lack of basic records to serve as sources and partly to the difficulty of collecting information from such basic records where they exist. Broadly speaking, transactions of the sorts which are included in income estimates are accurately recorded when carried on by corporations; and inquiries by the Census Bureau, the Bureau of Internal Revenue, and various governmental and private groups studying pay rolls, wage rates, etc., have made available much of the information in corporate accounts as a foundation for income estimates. But where most firms are partnerships or private businesses, basic accounting records are worse (in some fields nearly nonexistent), and often such records as do exist have not been collected. Even corporation accounting, moreover, is unsatisfactory when it comes to estimating profits, owing to the difficulty of handling changes in prices and of deciding on appropriate depreciation allowances in a world of uncertainty. Fortunately, a great part of the problems to be studied hinge on "income paid out"; and, as this income concept deals with cash payments, it is not affected by this indefiniteness.[1]

[1] Excellent discussions of the nature of available source material and the construction of statistical estimates of national income are to be found in the appendices of *National Income . . . . 1929–35*, and of the National Industrial Conference Board's study, *National Income and Its Elements* (New York, 1936). The relation between money income and more fundamental income concepts has recently been discussed by Professor Irving Fisher in his article, "Income in Theory and Income Taxation in Practice," *Econometrica*, January, 1937.

III. RECENT CHANGES IN THE SIZE OF THE NATIONAL INCOME

The growth of the national income of the United States can be measured satisfactorily only for very recent years; for the necessary statistical foundation grows weaker and weaker as we go back in time. A few responsible estimates run back as far as 1909, however, and despite changes in population, prices, and habits of living (which were so great that no mere set of figures could adequately describe the shifts in national income), they seem to show a definite rise in income levels. Dr. King's study, for instance, shows national income in 1923–25, measured in "1913 dollars," averaging about 46 per cent more than in 1909–11. Allowing for an increase in population of about 23 per cent, the increase in income per capita stands at 19 per cent. The figures of the Brookings Institution, being simply adjustments of those of Dr. King, naturally confirm this result very closely (showing a 21 per cent increase). The figures of W. H. Lough (given in his *High-Level Consumption* [New York, 1935], p. 28), reckoned on a basis of current dollars without correction for prices or population, show the average for 1923–25 about 137 per cent above the average of the two years 1909 and 1914 (as compared with 138.5 per cent from the National Bureau figures), which is also very close. The margin of increase seems wide enough to guarantee the reality of the gain, which resembles that shown by "real wages." Between 1923–25 and 1929, moreover, there was a further gain in per capita income, which the Brookings Institution estimates as about 10 per cent.

The years since 1929 (running down to 1934 or 1935) have been studied by several organizations. Their estimates for national income, in current dollars, are summarized in Table 1.

The 1929 estimate, by every system of measurement, represents the largest national income the country ever enjoyed. The large changes since then—the decline down to 1933 and the revival in 1934 and 1935—of course represent the effects of the great depression. Owing to price changes, the country's money income changed very much more than the service flow which constituted its "real income"; so that the current dollar figures of Table 1 are of interest chiefly as illustrations of the

importance of knowing how income is defined. The much greater shrinkage of "income produced," as compared with "income paid out," in 1930–33 reflects the fact that corporation dividends and withdrawals by owners of unincorporated businesses greatly exceeded business earnings.

Rough corrections for the effects of changes in prices and population are indicated by Table 2, which compares these elements in the situation with changes in various components

TABLE 1

VARIOUS ESTIMATES OF NATIONAL INCOME IN THE UNITED STATES, 1929–35

(Uncorrected for price changes)

ESTIMATE	1929 INCOME (000,000,000 omitted)	INDEX NUMBERS, 1929 = 100						
		1929	1930	1931	1932	1933	1934	1935
"Income paid out," U.S. Department of Commerce†	78.6	100	92.8	78.5	61.5	57.2	63.8	68.1
"Income produced," U.S. Department of Commerce†	81.0	100	83.8	66.1	48.8	51.5	59.7	65.4
"Income paid out," National Bureau‡	81.1	100	92.9	78.0	60.3	.....	.....	.....
"Accountable realized income," National Industrial Conference Board§	80.0	100	91.0	75.7	58.6	55.8	63.6	.....
"Total outgo," W. H. Lough‖	89.4	100	88.3	71.3	.....	.....	.....	.....

† *National Income in the United States, 1929–35* (Washington, 1936), Table 1, p. 22.

‡ *National Income, 1929–1932*, Bulletin 49 of the National Bureau (New York, 1934), Table 1, p. 3. This is identical with Table 1, p. 10, in the government document of the same title and date.

§ *National Income and Its Elements* (New York, 1936), Table 1, p. 9.

‖ W. H. Lough, *High-Level Consumption* (New York, 1935), p. 28.

of money income, as estimated by the Department of Commerce. Population growth having been less than 5 per cent, the chief correction is for price changes. While students of the subject have come to believe that the pretense of accuracy involved in converting such estimates into "dollars of constant purchasing power" is likely to be misleading, it is at once plain that much of the change was merely in prices. When we find that the "cost of living" (for workmen in cities) was about three-fourths as high in 1933 as in 1929, for instance, it is fair to guess that wages and salaries would buy roughly four-thirds as much in goods and services as the un-

corrected dollar figures suggest. The 1933 figure for employees' income, if corrected for prices, would thus show somewhat more than 75 per cent of 1929, rather than 57.1 per cent.

Another source of exaggeration in the changes shown by dollar figures is the omission of housewives' services, use of houses by the owners, etc. Services of this type, which make up part of national income in the fundamental sense, were probably not much affected by the depression. In some in-

TABLE 2

RELATIVE CHANGES IN COMPONENTS OF "INCOME PAID OUT" AND IN PRICES AND POPULATION IN THE UNITED STATES, 1929–35

(Index numbers, 1929 = 100)

Item	1929	1930	1931	1932	1933	1934	1935
Total income paid out*	100.0	92.8	78.5	61.5	57.2	63.8	68.1
Shares of income paid out:*							
Paid to employees	100.0	91.7	77.2	60.1	57.1	65.1	70.0
Dividends	100.0	97.2	72.3	46.2	37.0	42.7	47.5
Interest	100.0	103.9	101.3	97.5	90.0	89.5	86.6
Entrepreneurial withdrawals	100.0	93.3	80.7	63.9	58.4	64.4	69.6
Net rents and royalties	100.0	80.8	61.2	42.9	36.4	40.4	44.6
Labor cost of living†	100.0	96.6	87.1	77.8	74.8	79.3	82.5
Wholesale prices‡	100.0	90.7	76.6	68.0	69.2	78.6	83.9
Population, midyear§	100.0	101.4	102.1	102.7	103.6	104.0	104.7

* *National Income . . . . 1929–35*, Table 2, p. 26.

† Estimates of National Industrial Conference Board, as published in *Survey of Current Business*, December, 1936, pp. 19–20.

‡ Index number of United States Bureau of Labor Statistics, as published in *Federal Reserve Bulletin*, January, 1937, p. 75.

§ Annual midyear estimate of United States Census Bureau, as published in *Statistical Abstract of the United States, 1935*, p. 10.

stances, in fact, they must have increased, as things were done at home which in more prosperous times were done outside the family and paid for in cash.

On the whole, therefore, the decline of business must have reduced total national income in terms of services much less than the dollar totals would indicate; and by the same reasoning, the business revival of 1934–35 increased the country's service income much less than a hasty reading of Table 1 (or even Table 2) might lead us to think. The shrinkage of income in 1930–33 was so serious not so much because of its

absolute size (though it was great) as because a few (chiefly the unemployed and some of the farmers) bore the brunt of it. Similarly, the improvement in business since 1933, with the aid of "work spreading," has increased the incomes of the most unfortunate groups in a much greater proportion than total income.

IV. INEQUALITY IN INCOME DISTRIBUTION

It is well known that there are enormous differences in the sizes of different people's incomes. In 1929, for instance, "net incomes" reported to the Bureau of Internal Revenue included some which exceeded $10,000,000 and some which were more than $10,000,000 less than nothing! (Needless to say, a person with an income of minus $10,000,000 need not starve to death 100,000 times over. Quite the contrary—a large negative "net income" can arise only from losses on sales of securities and real estate, so that it is a luxury only the very rich can afford.) But merely citing extreme figures does not convey much information; what we need is to know the number of incomes of each different size, and the proportion they make of the national total.

Unfortunately, we have direct information on the size of incomes only for those who file income-tax returns. This has never covered more than 20 per cent of the population; and since 1925, when exemptions were increased, it has included less than 10 per cent. Some supplementary material has been made available by studies of wages, family budgets, etc.; but on the whole the evidence is so scanty that statisticians hesitate to found estimates upon it.

Of the few estimates which have been published, that of Dr. Frederick R. Macaulay for the year 1918 (in the National Bureau's study, *Income in the United States, 1909–1919* [New York, 1921–22]) is generally considered the most authoritative. Leaving out of account the 2,500,000 persons in the military service, he estimated that about 10 per cent of all "income received" (a concept close to that of "income paid out") went to the about 0.4 per cent of income receivers with the highest incomes, about 25 per cent of the total to the most prosperous 4.6 per cent of income receivers, and over 51 per cent to the most prosperous 24 per cent; while the poorest

15 per cent of income receivers were estimated to have received only 5 per cent of the total. How far these figures are correct, and how representative the year 1918 may be, there is no satisfactory way of telling. Another estimate, for the year 1929, was published in 1934 by the Brookings Institution in *America's Capacity to Consume*. The general impression their figures convey is that the concentration of income in the hands of the very wealthy was greater in 1929 than in 1918. But critical studies by several authorities indicate that these estimates are too unreliable to make the comparison meaningful.[2]

For lack of reliable and comparable estimates of income distribution by size of income for different years, we cannot hope to find out definitely whether the rich have been tending to grow richer and the poor to grow poorer. Attempts have been made to find out whether the proportion of national income going to the rich was increasing or decreasing during the post-war decade, but the results are inconclusive. Measures obtained by several different methods of estimation are shown in Table 3.

Both the Brookings Institution figures and those of Dr. King suggest an increased concentration, since the percentage of income receivers and of income received in the higher brackets showed an increase (see the first three columns of Table 3). But these increases are not definite proof of increasing concentration, since the whole level of incomes was shifting upward. The figures of the fourth column were worked out by Dr. Morris Copeland in an effort to escape this difficulty by dealing with the share of national income going to a constant proportion of the population; and they show no definite trend toward either greater or less concentration of income in the hands of the rich down to 1926.

Even Dr. Copeland's procedure is subject to some doubt, however, since finding the incomes of the richest 10 per cent of the population involves "extrapolation" (pushing estimates beyond the range covered by the data) of the income-

[2] See the reviews of the Brookings studies by A. Burns, *Quarterly Journal of Economics*, May, 1936, and *Journal of Political Economy*, October, 1935. W. H. Lough devotes an appendix in his *High-Level Consumption* to the criticism of the Brookings Institution estimates of income distribution and savings.

tax figures; for the proportion of population dependent on taxable incomes has never been as great as 10 per cent except in 1920, and since 1924 the total of dependents on all incomes covered by the returns (nontaxable as well as taxable) has been less than 10 per cent. Substantially the same procedure, applied within the range of the income-tax figures, yields the figures of the two right-hand columns. The figures in the fifth column suggest a great increase in concentration; but

TABLE 3

VARIOUS MEASURES OF SHIFTS IN CONCENTRATION OF INCOME IN THE UNITED STATES, 1918–29

Year	Percentage of Income Receivers Receiving over $5,000 in Current Dollars*	Percentage of Income Receivers Receiving over $5,000 in 1913 Dollars†	Percentage of National Income Made Up by Incomes of over $5,000 in 1913 Dollars‡	Percentage of National Income Received by Richest 10% of Population§	Percentage of Population Whose Net Incomes Make 15% of "All Incomes"‖	Percentage of Population Whose Adjusted Incomes Make 15% of Adjusted "Realized Income"¶
1918.....	1.12	0.66	8.62	33.1	3.50	2.11
1919.....	1.59	0.72	9.61	34.7	2.92	1.67
1920.....	1.61	0.62	7.55	28.9	3.70	2.27
1921.....	1.22	0.60	7.44	35.3	3.21	2.02
1922.....	1.35	0.76	9.57	34.2	3.12	1.90
1923.....	1.40	0.83	9.27	32.5	3.47	2.27
1924.....	1.53	0.90	10.52	32.4	2.89	2.08
1925.....	1.79	1.06	13.16	32.9	2.01	1.79
1926.....	1.90	1.07	12.72	32.9	2.06	1.64
1927.....	1.91	.....	.....	.....	1.69	1.56
1928.....	2.09	.....	.....	.....	1.02	1.38
1929.....	2.10	.....	.....	.....	1.23	1.41

* Brookings Institution estimate, in *America's Capacity to Consume*, p. 102.

† Estimate of W. I. King, *National Income and Its Purchasing Power*, p. 173.

‡ Estimate of W. I. King, *ibid.*, p. 178.

§ Estimate of M. A. Copeland, *Recent Economic Changes*, II, 836.

‖ Estimate constructed by the present writer. The incomes of income tax payers are represented by "net incomes" (taken from Basic Table 3 of the *Statistics of Income*); and the national total is the Brookings Institution estimate of "all incomes" (*op. cit.*, p. 152). The number of persons dependent on taxpayers' incomes is calculated by the method outlined by Dr. Copeland (*op. cit.*, p. 834 n.), the division of the income class within which the 15 per cent figure falls being made by linear interpolation, according to the proportion of the net income of that class which falls below the line.

¶ Computed by the present writer by the method just outlined. The income of taxpayers, however, is represented by "total income" minus capital gains, and the national total by "national realized income" minus income exempt from federal income tax (state and local government salaries, and all interest paid by government bodies). In most years the deductions from "total income" (chiefly contributions and capital losses) outweigh the capital gains of a large proportion of taxpayers; so that taxpayers' net income exceeds total income minus capital gains.

they are very heavily biased in this direction by the inclusion of the "capital gains" of people who sold securities and real estate for more than they paid for them, on account of the prolonged rise of property values. The sixth column, which is much more closely comparable with Dr. Copeland's figures, shows substantial agreement with him down to 1926, but suggests a sharp increase in concentration in 1927–29.

There is good reason to believe that the shifts in income concentration shown by these measures reflect temporary ups and downs of business rather than underlying trends. One indication of this is the large year-to-year variability visible in all the series. Another is the fact that the depression has reduced concentration. For several reasons the series of Table 3 cannot be continued past 1929; but it is noticeable that the number of persons dependent on the top 10 per cent of "national income paid out" (adjusted for nontaxable income) rose from about 360,000 in 1929 to over 600,000 in 1934.

The federal income tax, it should be remarked, is a substantial influence toward reducing inequality, which is not reflected in the indices just examined, since income taxes are not deducted in computing incomes. Changes in rates during the depression have greatly intensified this influence. In 1929, people with net incomes over $10,000 paid in the aggregate 8 per cent of their net incomes as income tax, and people with net incomes above $100,000 paid 15 per cent of theirs. The corresponding percentages in 1934 were 14 per cent and 43 per cent, even though incomes in the very highest brackets (which pay the highest rates) were much less important. Table 4 shows the changes between the rates applying to 1929 incomes and those applying to 1936 incomes, for various sizes of net incomes.

Whereas under 1929 rates the federal income tax could never absorb more than 25 per cent of net income, under 1936 rates the upper limit is 79 per cent, and thousands of incomes pay over 25 per cent.

The present income-tax rates, coupled with the high taxes on large estates at the death of the owner, levied by the federal and state governments, are capable of reducing the inequality of wealth and income distribution substantially over the next

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generation or two if they continue to be effective. Heavy taxes on large incomes will check the growth of estates in the hands of their present owners; and estate and inheritance taxes, therefore, will tend to reduce large estates at the death of the owners below what they themselves inherited. But this effect depends on the maintenance of the base of taxation. The preferential treatment now given to capital gains on property held for several years (which are taxed only at a fraction of face value) may make it possible by accounting manipulations to place much of net income beyond the reach of taxation.

TABLE 4

AMOUNT OF FEDERAL INCOME TAX (INCLUDING SURTAX) PAYABLE ON NET INCOMES OF VARIOUS SIZES, 1929 AND 1936*

SIZE OF NET INCOME (IN DOLLARS)	AMOUNT OF TAX PAYABLE (IN DOLLARS)		PERCENTAGE OF INCOME PAYABLE	
	1929	1936	1929	1936
5,000.....	7.88	48.00	0.16	0.96
10,000.....	83.25	343.00	0.83	3.43
20,000.....	633.75	1,469.00	3.17	7.35
50,000.....	4,779.75	8,621.00	9.56	17.2
100,000.....	15,959.75	31,997.00	16.0	32.0
500,000.....	115,959.75	304,616.00	23.2	60.9
1,000,000.....	240,959.75	676,428.00	24.1	67.6
5,000,000.....	1,240,959.75	3,787,334.00	24.8	75.7

* Computed from the income-tax regulations for a hypothetical person, married and with two children, earning his whole income (if less than $30,000), and having no tax-exempt interest income or salary.

V. INDUSTRIAL SOURCES OF INCOME

Estimates of the shares of national income arising in different industries, like estimates of the total, run back to the year 1909. But the classification (for lack of basic data) is unsatisfactory. Dr. King, for example, in *The National Income and Its Purchasing Power*, found it necessary to leave under "unclassified" and "miscellaneous" industries which, as he estimated, produced from 20¼ per cent (1919) to 30¼ per cent (1914) of "entire realized income drawn by individuals." In consequence, only a few conspicuous changes are well enough established to be worth describing here.

The most conspicuous of these changes is the loss in relative importance of farming. In the last years before the war, according to Dr. King, agriculture was the source of about 15 per cent of realized income, a proportion which rose to about 18½ per cent in 1918 and 1919. But the proportion dropped suddenly in the next two years to about 11 per cent in 1921; and in the years which followed, the drift was downward rather than upward, the figure for 1928 being about 9¼ per cent. This reflects in part a fall in the proportion of the people engaged in farming from some 25 per cent before the war to about 19 per cent in the later 1920's, and in part a reduction of per capita income in farming, as compared with other occupations. The other branches producing material goods (mining, manufacturing, and construction) returned after the war to about their pre-war position; both before the war and in the middle 1920's, Dr. King estimates that they originated about 27 to 29 per cent of national income, and employed 31 to 32 per cent of the people gainfully occupied, though during the war both proportions rose by 2 per cent or so. The most conspicuous change in the other direction is government, which, according to Dr. King, was the source of about 5½ per cent of national realized income during the war, of over 10 per cent in 1918, and of about 7½ per cent in the later 1920's.

The figures for 1929 and later years, as published by the National Bureau and the Department of Commerce, take advantage of improvements in source material to improve the industrial classification outside the industries producing material goods; though there remains a wide margin of uncertainty in industries which are predominantly unincorporated. The Department of Commerce estimates as to the proportions of "National Income Paid Out" coming from different industries are summarized in Table 5.

It will be noticed that these figures give a surprisingly low relative importance to the lines of business called "productive" in the superficial everyday sense—that is, businesses devoted to changing the form of physical objects, or as we say, "producing physical goods." Needless to say, this does not indicate that most of the income is contributed by industries to be regarded as parasitic. Rather, the old-fashioned

view of what is "productive" has been left behind by changes in social organization. The improvement in productive methods in the last few generations has in two ways encouraged and even compelled the growth of industries outside this group. In the first place, it has set resources free for uses previously beyond our reach, and has changed our style of living so that we wish to buy more "intangibles"—witness the expansion of the amusement industry. And, even more funda-

TABLE 5

PROPORTIONS OF NATIONAL INCOME PAID OUT CONTRIBUTED BY EACH INDUSTRIAL DIVISION, 1929–35*

Branch	1929	1930	1931	1932	1933	1934	1935
Total national income paid out (000,000,000 omitted)	$78,6	$72,9	$61,7	$48,4	$44,9	$50,2	$53,6
Percentages contributed by:							
Agriculture	7.8	7.5	6.9	6.6	6.6	6.5	6.9
Mining, etc.	2.6	2.4	2.0	1.7	1.8	2.1	2.0
Manufacturing	22.9	21.9	20.0	17.7	19.0	20.4	21.3
Contract construction	4.1	4.0	3.2	2.0	1.8	1.7	2.1
Total material goods†	37.4	35.8	32.1	28.0	29.2	30.7	32.4
Electricity and gas	1.7	2.0	2.3	2.6	2.4	2.2	2.1
Transportation‡	8.7	8.7	8.7	8.8	8.7	8.4	8.3
Communication§	1.2	1.3	1.5	1.7	1.6	1.5	1.5
Trade‖	13.8	14.1	14.6	14.6	13.6	13.3	12.8
Finance¶	10.6	10.2	10.4	10.6	9.5	8.9	8.7
Government**	8.7	9.7	11.7	14.8	16.4	16.7	16.1
Service††	11.8	12.0	12.4	12.5	12.2	12.3	12.3
Miscellaneous‡‡	6.1	6.2	6.3	6.4	6.4	6.0	5.9

* Dollar figures are from *National Income . . . . 1929–35*, Table 10, p. 37, and percentages from *ibid.*, Table 11, p. 38.

† This is the group popularly called "productive"; cf. the discussion in the text.

‡ Includes rail, water, and air transport, street railways, pipe lines, and motor transport (buses, taxicabs, for-hire trucks, etc.). For obvious reasons, the motor-transport estimates are insecure.

§ Chiefly the Bell Telephone System; includes also minor telephone companies and the telegraph companies.

‖ Retail and wholesale establishments merchandising physical goods; does not include "shops" of barbers, etc.

¶ Includes commercial and savings banking, insurance, and management of rea estate(!)—not including office buildings, hotels, and apartment houses; does not include brokerage and investment banking.

** Local, state, and federal government, including the Post Office and work relief payments.

†† Includes the professions, domestic service, personal service (hotels, restaurants, barber and beauty shops, cleaning and dyeing firms, laundries, apartment houses, and office buildings), recreation and amusement, private education, etc.

‡‡ These are the industries which are hardest to estimate, such as fishing and investment banking—industries loosely organized and not reached by census studies. The figures are admittedly unreliable; but the group is so small as not to affect national totals greatly.

mental, technological improvement has concentrated "physical-goods production" in larger establishments and in places more remote from those where the goods are to be used, making necessary more handling and more complex social organization.

The shifts in relative importance of the different groups in the years covered by Table 5 are probably chiefly phenomena of the depression, however, rather than reflections of the trend away from material goods; for this trend has been very gradual. Recent figures suggest that predepression employment ratios are roughly re-establishing themselves in most directions as unemployment is taken up; and we may reasonably expect income ratios to follow.

VI. INCOME FROM PERSONAL SERVICES AND FROM PROPERTY

From the standpoint of current issues, perhaps the most interesting of all the problems of income distribution is the division of income among those actively engaged in industry, those who get their incomes from property ownership, and the intermediate group of "self-employed" people whose incomes are mixtures of labor and property return. The importance of the mixed "entrepreneurial" incomes (which were about one-fourth of total "realized income" before the war, and about one-sixth of total "income paid out" in recent years) is so great, however, that it is impossible to give a clear-cut answer to the question of how income is shared between "labor and capital"—the question implies a two-way division which does not exist in reality. Even "wages and salaries" and "rents, dividends, and interest," moreover, which make up the rest of "income paid out," are not quite pure "labor income" and "capital income."

The most convenient authoritative sources of comparisons between pre-war and post-war years are Dr. King's estimates (*National Income*, pp. 77–80) and the estimates of Dr. Copeland, based upon Dr. King's figures (*Recent Economic Changes*, II, 769). The proportion of "entire realized income" paid in wages, salaries, pensions, etc., showed a substantial increase during the war, which was maintained afterward. From 1909 through 1916, it ranged only from 51 per cent to 52.7 per cent;

but after dipping to 50.3 per cent in 1918 it rose to 57.1 per cent in 1920, and ranged in 1921–28 from 57.1 per cent to 58.2 per cent. (The income total on which these percentages are based includes "imputed income" from owner-occupied homes, etc.; if this were excluded the percentages cited would be raised from four to five points.) The explanation of the higher proportion after the war is partly the shrinkage of the relative importance of farming (where the proportion paid to employees is very low) and the rise of government (where the proportion is high), and partly a general increase in the proportion paid to employees, which can be clearly seen in figures for manufacturing, construction, trade, transportation, communication, and banking. The change in the proportion of national income going in interest and dividend payments was apparently slight, most of the shrinkage corresponding to the gains of employees being in entrepreneurial incomes of farmers.

Pending publication of the final results of a study of the entire post-war period being carried on by the National Bureau of Economic Research, a full cross-classification of incomes by types and industrial sources is available only for the years since 1929. But preliminary estimates on a comparable basis for nine of the most important industries, covering agriculture, mining, manufacture, contract construction, electricity and gas, communication, transportation (excluding motor transport), and trade have been published by Dr. Simon Kuznets, of the National Bureau, in a bulletin entitled *Income Originating in Nine Basic Industries, 1919–1934* (New York, 1936). Combined figures for seven of these industries, omitting agriculture and electricity and gas on the ground that the proportions paid to employees are too low to be comparable with the others, are given in Table 6.

These figures show a slight but perceptible tendency for interest and dividends (chiefly dividends) to gain at the expense of wages and salaries, a tendency visible also in each of the industries individually, except for contract construction. During the period in question, the change has been very gradual, evidencing a general policy of "stabilizing" dividends and entrepreneurial withdrawals, through good years and bad, in proportion to pay rolls. If the federal tax on undistributed corporate earnings is effective, however, we may ex-

pect to see less year-to-year stability of proportions in future; for as "business savings" indicate, business earnings have been much less stable than dividends and withdrawals. If corporations pay dividends equal to earnings in good years, this will tend to reduce the proportion of income paid out going to labor; but on the other hand dividends will doubtless be reduced in hard years, increasing the labor proportion.

Since different industries differ so much in character and in the proportion of "entrepreneurial withdrawals," estimates of the relative importance of the different kinds of income re-

TABLE 6

DISTRIBUTION OF INCOME PAID OUT IN SEVEN BASIC INDUSTRIES IN THE UNITED STATES, BY TYPE OF PAYMENT, 1919–34*

YEAR	TOTAL PAID OUT, SEVEN INDUSTRIES (000,000 OMITTED)	PERCENTAGES OF TOTAL INCOME PAID OUT				
		Wages and Salaries	Dividends and Interest	Entrepreneurial Withdrawals	Total Paid Out	Business Savings
Average 1919–34	$25,766	79.8	11.7	8.4	100.0	1.0
1919	31,553	81.3	9.6	9.1	100.0	5.4
1920	37,441	82.5	8.7	8.8	100.0	18.7
1921	28,645	79.8	10.7	9.5	100.0	−11.4
1922	29,562	80.5	10.2	9.3	100.0	7.0
1923	35,345	81.8	10.4	7.8	100.0	8.6
1924	34,520	81.0	10.7	8.3	100.0	5.2
1925	35,986	80.2	11.5	8.3	100.0	8.3
1926	37,824	80.8	11.7	7.5	100.0	6.3
1927	37,505	80.0	12.4	7.6	100.0	2.9
1928	38,101	79.5	12.8	7.7	100.0	5.8
1929	40,171	79.3	13.1	7.6	100.0	5.4
1930	36,278	77.9	14.4	7.7	100.0	− 9.4
1931	29,124	77.6	14.0	8.4	100.0	−19.2
1932	21,206	76.6	13.4	10.0	100.0	−28.4
1933	19,946	77.1	12.6	10.3	100.0	−10.1
1934	23,187	78.1	12.4	9.5	100.0	0.03

* Computed by the present writer from figures given by Dr. Simon Kuznets, in *Income Originating in Nine Basic Industries, 1919–1934* (New York, 1936), Table 1, pp. 22–23. The industries included are mining, manufacture, contract construction, steam railroads, other transportation excluding motor transport), communication, and trade. In these industries the average proportions paid to employees range from 72.2 per cent (trade) to 84.4 per cent (mining), so that the general average (79.8 per cent) is fairly representative. Dr. Kuznets also gives figures for agriculture and for the electric light and manufactured gas industry; but the proportions paid to labor (averaging respectively 16.8 per cent and 40 per cent for the period) are too different to make a combined average very significant.

TABLE 7

Distribution of Income Paid Out in the United States, by Types of Payment and Industrial Sources*

1929 and 1932

(In percentages of the total paid out in each branch)

Industrial Branch	Entrepreneurial Withdrawals	Paid to Employees†	Dividends	Interest	Property Income	Total Paid Out	Net Business Savings
	1929						
All industries‡	15.9	65.5	7.6	6.5	18.6§||	100.0	3.1
Agriculture¶	73.4	21.4	0.3	4.9	5.2	100.0	16.3
Mining, etc.	1.5	78.7	17.6	2.2	19.8	100.0	− 8.9**
Manufacturing††	2.1	82.4	14.3	1.2	15.5	100.0	7.2
Contract construction	13.5	84.0	2.0	0.5	2.5	100.0	− 1.0**
Electricity and gas	0.0	40.9	31.6	27.5	59.1	100.0	− 0.7**
Transportation‡‡	6.0	73.7	10.9	9.4	20.3	100.0	5.4
Communication	0.0	78.4	17.0	4.6	21.6	100.0	12.0
Trade§§	22.3	71.9	5.2	0.6	5.8	100.0	9.4
Finance:							
Banking|||	0.0	57.9	42.1	0.0	42.1	100.0	14.6
Insurance	0.0	103.4¶¶	5.1	− 8.5¶¶	− 3.4¶¶	100.0	1.5
Real Estate***	0.0	9.3	3.5	28.5	90.7§	100.0	− 5.1**
Government	0.0	79.1	0.0	20.9	20.9	100.0	0.0
Service industries	30.1	66.1	1.7	2.1	3.8	100.0	− 0.7**
Miscellaneous	31.5	56.3	3.5	5.6	12.2||	100.0	− 1.4**
	1932						
All industries‡	16.5	64.0	5.7	10.3	19.5§||	100.0	−18.2**
Agriculture¶	77.3	16.5	0.2	6.0	6.2	100.0	−26.6**
Mining, etc.	4.0	81.6	9.9	4.5	14.4	100.0	−43.8**
Manufacturing††	1.9	82.8	13.1	2.2	15.3	100.0	−34.2**
Contract construction	17.2	79.2	2.4	1.2	3.6	100.0	−29.3**
Electricity and gas	0.0	29.8	35.2	35.0	70.2	100.0	−22.7**
Transportation‡‡	7.4	70.0	7.2	15.4	22.6	100.0	−11.9**
Communication	0.0	68.0	25.2	6.8	32.0	100.0	− 7.1**
Trade§§	25.9	70.3	3.0	0.8	3.8	100.0	−25.7**
Finance:							
Banking||||	0.0	63.8	36.2	0.0	36.2	100.0	−36.7**
Insurance	0.0	106.0¶¶	3.0	− 9.0¶¶	− 6.0¶¶	100.0	− 7.3**
Real Estate***	0.0	7.7	1.8	46.1	92.3§	100.0	−12.4**
Government	0.0	78.9	0.0	21.1	21.1	100.0	0.0
Service industries	34.1	62.9	0.9	2.1	3.0	100.0	−11.2**
Miscellaneous	31.1	54.7	− 2.2¶¶	8.4	14.2||	100.0	− 9.6**

(Footnotes for Table 7 on page 19)

quire to be broken down by industrial groups. Table 7 gives such a breakdown for 1929 (the last prosperity year, and that about which we know most) and 1932 (the worst year of unbroken depression).

Even the catastrophe of the great depression, it will be seen, changed the pattern of income paid out remarkably little, the most conspicuous change being a relative fall of dividends and rise of interest payments. The distribution of "income produced," on the other hand, was enormously affected; for in many lines of business there were no profits in 1932, even excluding losses from revaluation of plant and real estate.

The figures indicate plainly that the lion's share of income paid out goes to employees in almost all industries where it could be reasonably expected. In manufacturing and mining, which together employ about one-third of all employees and pay about one-third of total wages and salaries, about 80 per cent of income paid out has gone to employees; though the variation between branches of manufacture is considerable. (In 1929, for instance, only 58.9 per cent of income paid out went to wages and salaries in the "chemical and petroleum refining" group; while the proportion in "textiles and leather" was 89.1 per cent.) In the branches where the proportion falls markedly below 70 per cent, furthermore, there are always

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(Footnotes for Table 7 from preceding page)

* Estimates of United States Department of Commerce, as given in *National Income in the United States, 1929–35* (Washin ton, 1936).

† Includes wages, salaries (including compensation of corporate officers), pensions, workmen's compensation, etc.

‡ "National income paid out"—the total of the industries below.

§ Includes "net rents and royalties" in addition to dividends and interest.

‖ Includes international balance of property incomes, in addition to domestic dividends and interest originated by the industries covered.

* Figures do not include rents paid by farm tenants, which are shown under "real estate."

** Negative net business savings indicate dividends (or profits withdrawn) exceeded business earnings.

†† Comparable figures may be worked out for seven subgroups of manufacture from figures given in *National Income . . . . 1929–35*, pp. 111–14.

‡‡ Figures for subgroups of transportation may be worked out from data in *ibid.*, pp. 136–38.

§§ Shop rents, etc., are not included here, but are reckoned in "real estate." Separate figures for wholesale and retail trade will be found in *ibid.*, pp. 164–66.

‖‖ Brokerage and investment banking given under "miscellaneous."

¶¶ Dividends and interest received exceed those paid out.

*** These figures have been sharply criticized by the National Industrial Conference Board (cf. R. F. Martin, *National Income and Its Elements* [New York, 1936]), and are admittedly very uncertain.

obvious explanations. In farming, the work is done chiefly by the farmer himself and his family. In the electric-power industry, a prodigious amount of plant is needed, which piles up capital charges. Banking and real estate are primarily businesses of property.

The sources of property income are relatively concentrated. Of the about $14,650,000,000 of interest, dividends, and net rent payments originated by all industries in 1929, about 55 per cent came from "public utilities"—electricity and gas, transportation and communication—and from banking and real estate; and the corresponding proportion in 1932 was 57 per cent. Yet all these industries together employed in each year only about 14½ per cent of all employees.

VII. CONTRIBUTIONS OF DIFFERENT TYPES OF PAYMENT TO LARGE AND SMALL INCOMES

If material were available, it might be very interesting to cross-classify incomes completely by size, type of payment, and industrial source. So far as employees' incomes are concerned, this purpose can be partly achieved by calculations of per capita earnings. Thus the Department of Commerce estimates that in 1929 earnings per employee (reduced to a full-time basis) ranged from $649 in farming to $2,351 in finance (to give the extremes); in the other branches they varied from $1,154 (service) up to $1,895 (construction). In a few industries we have both wages and salaries on this basis; thus in manufacturing in 1929 (per capita employee income $1,508), the average wage is estimated at $1,299 and the average salary at $2,670. But since we know that salary averages are heavily weighted by the larger salaries, but not how heavily weighted, these figures give but little idea of the distribution. Actual distributions of wage rates are rare, though a few have been calculated, and those that exist are in many respects unsatisfactory.[3]

In regard to the distribution of income payments of various types among incomes of different sizes we may gain some in-

[3] One of the most interesting distributions is reprinted by the National Industrial Conference Board (*National Income and Its Elements*, p. 30), showing wage rates for about 1,900,000 employees in Ohio in 1929. This takes in about three-fourths of the gainfully employed in the state; but it does not show actual earnings or give more than the crudest industrial classification.

formation from the *Statistics of Income*, published by the Bureau of Internal Revenue, which show the amounts of income from various types of services received by people in each income class. Table 8 compares some of these figures for the year 1929 with national totals for the types of income in question. The reader is warned, however, that the classification of sources of income in the personal income-tax returns does not precisely match that of the Department of Commerce, so that detailed comparisons are not to be taken too seriously. The comparability of rent payments, in particular, is very doubtful.

The figures of Table 8 indicate that taxpayers with net incomes between $5,000 and $100,000 received in 1929 a substantial part of total wages and salaries, but taxpayers with net incomes over $100,000 received only a very small fraction. Another aspect of the same fact is shown by a calculation in the *Statistics of Income*, according to which wages and salaries make up about half of income from all sources, other than capital gains, for persons with net incomes between $5,000 and $10,000 in 1929, but only about 3 per cent for persons with net incomes over $1,000,000.

Dividends, on the other hand, are shown to be a form of rich man's income par excellence. Although millions of people hold some shares of corporate stock, most of the shares belong to the large holders. Accordingly, nearly three-quarters of all dividends flowed in 1929 to taxpayers with net incomes over $5,000, and nearly a quarter to taxpayers with incomes over $100,000. In addition, about $300,000,000 in dividends (about 5 per cent of the total) was received by people with negative net incomes; and since negative incomes arose chiefly from stock-market losses, much of this must also have gone to the wealthy. (Even in 1933, although the number of stockholders had greatly increased and although many of the rich were showing very small net incomes, over 54 per cent of "dividends originated" were reported by taxpayers with net incomes over $5,000, besides nearly 7 per cent reported by people with negative net incomes.) The conclusion that dividends flow chiefly to the wealthy is strikingly confirmed by the fact that dividends made up about 10 per cent of the income (from all sources save capital gains) of taxpayers with

TABLE 8

PROPORTIONS OF NATIONAL INCOME TOTALS IN THE UNITED STATES RECEIVED BY TAXPAYERS WITH NET INCOMES OVER $5,000, BY TYPES OF PAYMENT, 1929

(Amounts in millions of dollars)

TYPE OF PAYMENT	NATIONAL TOTAL*	AMOUNT RECEIVED BY PERSONS WITH NET INCOMES OVER			PERCENTAGE RECEIVED BY PERSONS WITH NET INCOMES OVER		
		$5,000†	$100,000†	One Million Dollars†	$5,000‡	$100,000‡	One Million Dollars‡
Total paid out, plus entrepreneurial business savings§	$79,611	$15,549	$2,751	$556	19.5	3.5	0.7
Compensation of employees‖	$51,487	$ 5,179	$ 311	$ 25	10.1	0.6	0.05
Entrepreneurial income¶	13,482	3,334	519	96	24.7	3.8	0.7
Total property income**	14,643	7,036	1,921	434	48.1	13.1	3.0
Forms of property income:							
Dividends††	$5,964	$4,247	$1,428	$331	71.2	23.9	5.6
Interest‡‡	5,255	2,140	439	94	40.7	8.4	1.8
Rent§§	3,424	649	54	9	19.0	1.6	0.3

* From *National Income . . . . 1929–35*, pp. 22–26.

† From *Statistics of Income, 1929*, pp. 9 and 15. The figures are "cumulative": i.e., the group with net incomes over $100,000 includes that with net incomes over $1,000,000, and the $5,000 group includes both richer groups.

‡ Computed by the present writer from the foregoing figures.

§ Includes "net business savings" of unincorporated firms; see note ¶, below.

‖ The total is not corrected for tax-exempt salaries of state and local governments; but, of course, few of these go to people with net incomes over $5,000.

¶ Since the income-tax figures include profits not withdrawn, "net business savings" of unincorporated businesses (estimated at $979,000,000) are included in the total as well as entrepreneurial withdrawals.

** The total of the three subclasses given below.

†† The total represents "dividends originated," avoiding double counting of some $2,200,000,000 paid by corporations to other corporations.

‡‡ The total includes "interest payments originated" plus the net international balance of property incomes (which adds $151,000,000). The figures for individuals include $270,000,000 of tax-exempt interest on government bonds, in addition to interest on foreign and domestic securities, mortgages, and trust accounts.

§§ Figures for individuals probably include more than "net rents" in many instances.

incomes between $5,000 and $10,000 in 1929, but half or more of the income of the taxpayers in each bracket above $100,000.

The other forms of property income, as Table 8 shows, are much more democratically distributed. Only about 41 per cent of interest payments originated—as distinguished from dividends—was reported in 1929 by taxpayers with net incomes over $5,000; and the corresponding percentage in 1933 was only 20 per cent. For lack of information on tax-exempt interest received by persons with net incomes below $5,000, it is impossible to calculate precisely the amount of interest received by persons with negative net incomes; but it seems to have been less than 3 per cent. A large part of interest income, of course, flows to the middle classes through savings banks and insurance companies, and as mortgage interest. Rent incomes, moreover, are apparently even less concentrated in the hands of the rich. In 1929 only 19 per cent, and in 1933 only about 12½ per cent, of "net rents and royalties" were reported by taxpayers with net incomes over $5,000; while about 2½ per cent in 1929 and about 6½ per cent in 1933 were reported by people with net incomes less than zero.

The distribution of entrepreneurial incomes among incomes of different sizes varies greatly from one industry to another. Some clues to this variation may also be found in the *Statistics of Income*, which classify by industrial sources the business incomes of individual business men; though unfortunately partnership incomes (which total nearly as much in these income brackets) are not classified. While the $1,936,000,000 of profits of individual proprietors with net incomes over $5,000 in 1929 were less than 15 per cent of total entrepreneurial incomes, the corresponding proportions in mining and manufacturing were 37 per cent and 36 per cent, in "service" (including the professions, hotels, etc.) nearly 28 per cent, in construction about 27 per cent. For trade and "miscellaneous" (which includes brokers and investment bankers), the proportions were about 18½ per cent and about 15½ per cent. But it is to be remembered that these fields are full of partnerships, so that these figures would be greatly increased if we had a classification of partnership incomes by sources. On the other hand, individual business incomes over $5,000 make up only 5 per cent of the total in transportation (meaning

chiefly taxicabs and small trucking businesses) and only about 2 per cent in agriculture; and in both these fields partnerships are unimportant.

VIII. GOALS AND MEANS OF INCOME REDISTRIBUTION

It has come to be very generally accepted in the United States that an increase in the incomes of the poorest groups in the population is desirable, even at the expense of a reduction in the incomes of the more prosperous. Some reformers, in fact, may even consider reduction in the incomes of the rich a social gain in itself, in so far as it affects the very highest incomes, since this tends to reduce the concentration of power which makes for social instability and affronts the dignity of the poorer citizens. But reductions falling upon more moderate incomes, at all events, must be regarded as social losses, tending to offset the social gains resulting from increases in the lowest incomes. It follows that methods of income redistribution are to be preferred under which the losses of the richer groups are as small as possible in proportion to the gains of the poorer, and under which both losses and gains are as equitably distributed as possible among those affected.

There is, it is true, a sentimental doctrine, lately brought forward by reformers, that anything which increases the incomes of any "underprivileged" group involves a gain rather than a loss for everyone else. But this agreeable theory cannot survive dispassionate analysis. The argument is that the prosperity of each group depends on that of the others—more concretely, that an increase in one group's money income, however achieved, will improve the markets for other people's products. An application of some importance is the absurd theory (which has been successfully "sold" to most city people who think about the matter at all) that a high price of milk is a good thing for city workmen because it increases the dairy farmer's power to buy city-made goods. The fallacy is obvious: the dairy farmer gets his larger income (if he does—a matter which is not in all cases clear!) because city workers have to spend more money in order to buy less milk at higher prices. This reduces what they have left to spend on other things by the extra amount they pay for the milk; so that the "purchasing power" over manufactured goods which the

farmer thus obtains is not in any sense newly created, but is merely transferred from city people. This blanket justification for schemes to redistribute income by raising certain prices above the level they would otherwise attain (whether the "prices" in question are those of farm products, of labor services, or of manufactured goods) must therefore be repudiated. Robbing Peter to pay Paul is not especially likely to benefit Peter.

There is, of course, a strong case for price raising as a means of income redistribution in a very important type of situation: intervention to raise wages, within moderate limits, may be very helpful where employers have considerable monopoly power on their local labor markets. Both theoretical analysis and experience with the application of minimum wages to sweatshops indicate that in such circumstances minimum levels considerably above the lowest rates previously paid can be enforced, without any noticeable ill effects upon employment. But employer monopoly, while not uncommon, is far from general. Ordinarily, the employer is to be thought of not as a monster bearing down the tiny single employee (as he is so often pictured), but as a competitor on fairly equal terms with other employers in need of labor. This competition of employers is far from perfect; but each individual worker need not know where he can find another job at good wages in order to be protected by it. In the course of time, an employer who refuses to match the wages and standards of working conditions of other firms will find it impossible to maintain and increase his staff. Most workers are reasonably well protected in this way; and the rather unpleasant experience of Australia and New Zealand with widespread wage regulation reinforces the suggestion of general analysis that minimum-wage requirements should be used only to remedy acute local situations (affecting, say, not over 10 per cent of the wage-earners) rather than as an instrument of income redistribution on a wide front.

Except where there is strong evidence of buyer monopoly, proposals for raising wages and prices to redistribute incomes are subject to three fundamental criticisms. In the first place, opportunities for gains through price raising are commonly overrated, owing to the usual habit of overlooking the effect

of the price charged on the amount sold. The gain from price raising is almost sure to be less than in proportion to the increase of the price; for if the price in question rises relative to other prices the market will be restricted; while if other prices rise too, although this may prevent the shrinkage of sales, the rise in the cost of living will absorb the gain. In the second place, where opportunities for gains of this sort do exist, it is frequently those who are already fairly well off, rather than the very poorest groups, who can best organize to take advantage. Thus it is notorious that the landowners rather than the "share croppers" gained most from the restriction of cotton acreage; and the best organized labor groups are very commonly also those whose members are relatively high on the income scale. The exploitation of such opportunities, where they exist and where the necessary organization exists or can be formed, is therefore by no means certain to improve the distribution of national income. In the third place, since putting up prices (except in the case of buyer monopoly) means loss of sales and therefore less production, trying to redistribute national income by this method necessarily involves some shrinkage of the total to be distributed. This may be justifiable where the gains in leisure for those who do less work are socially very important, or where it can be argued that those who gain income are so peculiarly deserving that a small gain for them outweighs a larger loss for someone else. But the more such attempts are generalized, the surer we may be that the gains will cancel out and the losses (through reduced output) will remain to plague us. The right to try to increase income by means which involve holding down production should be reserved for groups with highly excessive working hours or with extraordinarily low money wages. For everybody cannot simultaneously ride on someone else's back.

The widespread feeling that corporate profits are so high that wages could be greatly raised at the expense of profits, without any increase of selling prices, is not justified by the facts, as may be seen from Tables 6 and 7. Except where much of the work is done by people in business for themselves (farming, trade, and service industries) and in electric light and power, banking, and real estate, employees typically en-

joy some five-sixths of income paid out in their industries; and of course a mere pressure for higher wages cannot hope to bring about the transfer of much even of the rather small fraction going to property. On the contrary, an employer whose labor costs increase tries either to buy his materials cheaper or to sell his product dearer. Since his competitors also are subject to increased costs when wage raising is general, the market readily adjusts itself to make this possible, and profits are not very seriously affected; while much (at least) of the wage increase is nullified by a rising cost of living, except as laborers offset the cost-raising effect of the increase by an increased output per man-hour. This tendency of wage raising to push up prices may be seen in the recent history of both the United States and France.

This is not to say that there are no possibilities of gain for the poorer groups without overbalancing losses elsewhere—quite the contrary. In the first place, the largest underprivileged group in the United States is the body of unemployed. If they can be put back to work, their share of the national income will rise; but since the goods they produce will increase total national income, their gains need not involve important losses in real income for others. Measures for improving the unemployment situation will therefore have a powerful favorable reaction on the distribution of income. At the present time the most promising opportunities for re-employment depend on increasing the production of "capital goods," especially of housing. The revival of construction, in turn, depends partly on the confidence of investors and business men in the future and partly on construction costs. From the standpoint of construction costs, probably the most promising measures for improvement lie in the direction of reducing the rigid cost prices, including both building wages and wages affecting building materials, as well as certain monopoly prices in the field of building materials. Some of the wage increases recently granted and others being demanded tend to raise construction costs, making necessary a further rise of rents before construction can revive; while their effects upon "business confidence" are far from beneficial. Regarding re-employment as a means of income redistribution, therefore, some wage advances are likely to be harmful rather than helpful.

In a longer view, there are enormous possibilities for improving income distribution through reform of government finance. In the first place, it would be a great improvement if more of the expenditures of governmental bodies were met from higher income taxes on the larger incomes (especially those from, say, $2,500 to $100,000, as these are the most promising source of additional revenue), and less from taxes which are so levied as to be part of business men's variable operating costs (such as sales taxes and the taxes on payrolls under the Social Security Act). Aside from effects on the total size of national income, such a shift would enable business men to pay higher wages and charge lower prices; while the income tax would transfer the corresponding burden to those who can bear it best. In addition, such a shift would stimulate rather than harm production, since it would reduce operating costs without impairing selling markets. The expenditure side of public finance, moreover, also offers great possibilities as a means of income redistribution. If we diverted funds from building battleships, say, to building houses and to retraining people for new occupations in regions where the local industries have died out, the aid to the underprivileged would be immediate and substantial.

Friends of a more equitable distribution of income, accordingly, should be interested above all in restoring employment and in obtaining a more equitable tax system. A direct frontal attack on the problem of the incomes of the poor, along the lines of a general wage increase, is likely to do more harm than good; what is needed in the field of wages is relative adjustment (including reductions where high costs are a barrier to re-employment as well as increases where labor is "sweated") rather than general revision. A program of re-employment and tax reform, it is true, is less dramatic. It offers fewer opportunities to reform leadership to identify the things it is struggling against with personalities; and it is less likely to win spectacular increases in money wages. But, on the other hand, its achievements are much less likely to be nullified by changes in prices; and its gains are likely to be won at much less cost to groups outside the fold of organized labor, since it is less likely to hold down production. In substance, though not in appearance, this is the more direct way to work toward the goal of an equitable division of national income.

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